

**REPORT OF THE AUDIT OF THE
MONTGOMERY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Floyd Arnold, Montgomery County Judge/Executive

Members of the Montgomery County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Montgomery County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Montgomery County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Montgomery County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Floyd Arnold, Montgomery County Judge/Executive
Members of the Montgomery County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montgomery County Fiscal Court's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2009 on our consideration of the Montgomery County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the comments and recommendations, included herein, which discusses the following report comments:

- 2009-1 Condition: The Montgomery County Fiscal Court Did Not Approve The Opening And Closing Of Certificates Of Deposits
- 2009-2 Condition: The Chief Deputy Jailer Should Keep A Timesheet
- 2009-3 Condition: Section IIIA: Nepotism Of The Montgomery County Code Of Ethics Appears To Have Been Violated
- 2009-4 Condition: The Montgomery County Fiscal Court Maintained Deposits Of Public Funds In A Depository Institution, Which Did Not Provide Sufficient Collateral Or A Written Security Agreement

Respectfully submitted,

Morgan Franklin, LLC

Morgan – Franklin,

October 15, 2009

MONTGOMERY COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

Floyd Arnold	County Judge/Executive
Lloyd G. Cassidy	Commissioner
Gary G. Amburgey	Commissioner
Kenneth Jones	Commissioner

Other Elected Officials:

Kevin Cockrell	County Attorney
Everett D. Myers	Jailer
Judy L. Witt	County Clerk
Holly Lemons	Circuit Court Clerk
Fred D. Shortridge	Sheriff
Linda Cockrell	Property Valuation Administrator
Wallace Johnson	Coroner

Appointed Personnel:

Forrest Brown	County Treasurer
Mary Blevins	Occupational Tax Administrator
Casey J. Puckett	Finance Officer

MONTGOMERY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

MONTGOMERY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	Primary Government		
	Governmental	Business-Type	Totals
	Activities	Activities	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,910,131	\$ 81,548	\$ 1,991,679
Monies Held By Others For Civic Center			
Construction	561,390		561,390
Notes Receivable	15,085		15,085
Total Current Assets	2,486,606	81,548	2,568,154
Noncurrent Assets:			
Construction In Progress	1,711,253		1,711,253
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	614,946		614,946
Buildings and Improvements	3,355,136		3,355,136
Vehicles	207,290	8,025	215,315
Equipment	335,387		335,387
Infrastructure	2,861,617		2,861,617
Total Noncurrent Assets	9,085,629	8,025	9,093,654
Total Assets	11,572,235	89,573	11,661,808
LIABILITIES			
Current Liabilities:			
Revenue Bonds	46,021		46,021
Financing Obligations	78,522		78,522
Total Current Liabilities	124,543		124,543
Noncurrent Liabilities:			
Revenue Bonds	277,748		277,748
Financing Obligations	1,719,246		1,719,246
Total Noncurrent Liabilities	1,996,994		1,996,994
Total Liabilities	2,121,537		2,121,537
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	6,964,092	8,025	6,972,117
Restricted For:			
Expendable	3,844		3,844
Nonexpendable	75,000		75,000
Unrestricted	2,407,762	81,548	2,489,310
Total Net Assets	\$ 9,450,698	\$ 89,573	\$ 9,540,271

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

MONTGOMERY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,031,035	\$ 229,296	\$ 385,495	\$ 76,500
Protection to Persons and Property	2,122,639	1,131,327	122,000	
General Health and Sanitation	317,477			725,000
Social Services	102,076		11,692	
Recreation and Culture	65,784			
Transportation Facilities and Services	735			
Roads	984,778		965,641	8,080
Airports	22,917			
Capital Projects	7,900			
Interest on Long-term Debt	63,515			
Total Governmental Activities	7,718,856	1,360,623	1,484,828	809,580
Business-type Activities:				
Jail Canteen	227,779	202,993		
Total Business-type Activities	227,779	202,993		
Total Primary Government	\$ 7,946,635	\$ 1,563,616	\$ 1,484,828	\$ 809,580

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes

Excess Fees

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (3,339,744)	\$	\$ (3,339,744)
(869,312)		(869,312)
407,523		407,523
(90,384)		(90,384)
(65,784)		(65,784)
(735)		(735)
(11,057)		(11,057)
(22,917)		(22,917)
(7,900)		(7,900)
(63,515)		(63,515)
(4,063,825)		(4,063,825)
	(24,786)	(24,786)
	(24,786)	(24,786)
(4,063,825)	(24,786)	(4,088,611)
640,653		640,653
78,425		78,425
176,807		176,807
3,584,174		3,584,174
135,318		135,318
60,974	248	61,222
274,039		274,039
4,950,390	248	4,950,638
886,565	(24,538)	862,027
8,564,133	114,111	8,678,244
\$ 9,450,698	\$ 89,573	\$ 9,540,271

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

June 30, 2009

MONTGOMERY COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Jail Fund	Health And Civic Center Fund	Revolving Loan Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,155,528	\$ 23,274	\$ 25,255	\$ 311,404	\$ 314,530
Monies Held By Others For Civic Center Construction				561,390	
Total Assets	<u>\$ 1,155,528</u>	<u>\$ 23,274</u>	<u>\$ 25,255</u>	<u>\$ 872,794</u>	<u>\$ 314,530</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 7,338	\$ 23,273	\$ 24,537	\$ 414	\$
Permanent Fund - Senior Care					
Unreserved:					
General Fund	1,148,190				
Special Revenue Funds		1	718	872,380	314,530
Permanent Fund					
Total Fund Balances	<u>\$ 1,155,528</u>	<u>\$ 23,274</u>	<u>\$ 25,255</u>	<u>\$ 872,794</u>	<u>\$ 314,530</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 2,471,521
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities of \$14,204,430, Net of Accumulated Depreciation of \$5,118,801, are not Financial Resources and, Therefore, are not Reported in the Funds.	9,085,629
Notes Receivables are not Reported in the Funds.	15,085
Long-term Debt is not Due and Payable in the Current Period and, Therefore, is not Reported in the Funds.	
Revenue Bonds	(323,769)
Financing Obligations	(1,797,768)
Net Assets Of Governmental Activities	<u>\$ 9,450,698</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS –
MODIFIED CASH BASIS
June 30, 2009
(Continued)

Non Major Funds	Total Governmental Funds
\$ 80,140	\$ 1,910,131
	561,390
<u>\$ 80,140</u>	<u>\$ 2,471,521</u>
\$ 75,000	\$ 55,562
	75,000
	1,148,190
1,296	1,188,925
3,844	3,844
<u>\$ 80,140</u>	<u>\$ 2,471,521</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

For The Year Ended June 30, 2009

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Jail Fund	Health And Civic Center Fund
REVENUES				
Taxes	\$ 4,480,058	\$	\$	\$
Excess Fees	135,318			
Licenses and Permits	91,972			
Intergovernmental	355,750	973,721	1,143,460	770,735
Charges for Services			165,111	18,999
Miscellaneous	153,562	15,521	29,888	112,325
Interest	48,999		600	3,270
Total Revenues	<u>5,265,659</u>	<u>989,242</u>	<u>1,339,059</u>	<u>905,329</u>
EXPENDITURES				
General Government	1,751,323			
Protection to Persons and Property	389,124		1,512,954	
General Health and Sanitation	204,762			1,696,713
Social Services	88,384			
Recreation and Culture	65,784			
Transportation Facilities and Services		30,735		
Roads		1,125,171		
Airports	22,917			
Debt Service	19,145		72,330	90,948
Capital Projects				
Administration	1,672,199	233,876	398,597	25,133
Total Expenditures	<u>4,213,638</u>	<u>1,389,782</u>	<u>1,983,881</u>	<u>1,812,794</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	1,052,021	(400,540)	(644,822)	(907,465)
Transfers & Other Financing Sources (Uses)				
Lease Proceeds				1,500,000
Transfers From Other Funds		406,103	652,000	158,231
Transfers To Other Funds	(1,193,334)			(85,000)
Total Transfers & Other Financing Sources (Uses)	<u>(1,193,334)</u>	<u>406,103</u>	<u>652,000</u>	<u>1,573,231</u>
Net Change in Fund Balances	(141,313)	5,563	7,178	665,766
Fund Balances - Beginning	1,296,841	17,711	18,077	207,028
Fund Balances - Ending	<u>\$ 1,155,528</u>	<u>\$ 23,274</u>	<u>\$ 25,255</u>	<u>\$ 872,794</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Revolving Loan Fund	Non Major Funds	Total Governmental Funds
\$	\$	\$ 4,480,058
		135,318
		91,972
	90,434	3,334,100
		184,110
8,480	7,000	326,776
4,781	3,324	60,974
<u>13,261</u>	<u>100,758</u>	<u>8,613,308</u>
		1,751,323
	65,680	1,967,758
	622	1,902,097
	13,692	102,076
		65,784
		30,735
	102,262	1,227,433
		22,917
		182,423
	7,900	7,900
		2,329,805
	<u>190,156</u>	<u>9,590,251</u>
13,261	(89,398)	(976,943)
		1,500,000
	62,000	1,278,334
		<u>(1,278,334)</u>
	<u>62,000</u>	<u>1,500,000</u>
13,261	(27,398)	523,057
301,269	107,538	1,948,464
<u>\$ 314,530</u>	<u>\$ 80,140</u>	<u>\$ 2,471,521</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 523,057
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	2,206,446
Depreciation Expense	(448,113)
Asset Disposed of, Net Book Value	(5,846)
Notes Receivable Principal Received is Recorded in the Funds as Revenue, However in the Government-wide Financial Statements it Results in an Increase in Cash and Decrease in Notes Receivable Which has no Effect on Net Assets.	(7,887)
Debt Proceeds Are Considered Current Financial Resources of Governmental Funds While Lease and Bond Principal Payments are Expensed in the Governmental Funds as a use of Current Financial Resources. These Transactions Have no Effect on Net Assets.	
Financing Obligations Payments	75,631
Bond Payments	43,277
Financial Obligation Proceeds	<u>(1,500,000)</u>
Change in Net Assets of Governmental Activities	<u>\$ 886,565</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

MONTGOMERY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

	Business-Type Activities - Enterprise Fund	Jail Canteen Fund
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 81,548	
Total Current Assets	<u>81,548</u>	
Noncurrent Assets:		
Capital Assets:		
Vehicles	18,000	
Less Accumulated Depreciations	<u>(9,975)</u>	
Total Noncurrent Assets	<u>8,025</u>	
Total Assets	\$ 89,573	
Net Assets		
Unrestricted	<u>89,573</u>	
Total Net Assets	<u><u>\$ 89,573</u></u>	

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund
	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen Receipts	\$ 202,993
Total Operating Revenues	<u>202,993</u>
Operating Expenses	
Cost of Sales	149,553
Educational and Recreational	25,528
Medical	36,225
Sales Tax	13,727
Postage	221
Depreciation	2,375
Miscellaneous	150
Total Operating Expenses	<u>227,779</u>
Operating Income (Loss)	<u>(24,786)</u>
Non-Operating Revenues/(Expenses)	
Interest Earned	<u>248</u>
Total Non-Operating Expenses	248
Change In Net Assets	(24,538)
Total Net Assets - Beginning	114,111
Total Net Assets - Ending	<u><u>\$ 89,573</u></u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND – MODIFIED CASH BASIS

For The Year Ended June 30, 2009

MONTGOMERY COUNTY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND – MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund <hr/> Jail Canteen Fund <hr/>
Cash Flows From Operating Activities	
Receipts From Customers	\$ 202,993
Educational and Recreational	(25,528)
Cost of Sales	(149,553)
Medical	(36,225)
Sales Tax	(13,727)
Postage	(221)
Miscellaneous	(150)
Net Cash Provided/(Used) By Operating Activities	<hr/> (22,411)
Cash Flows From Investing Activities	
Interest Earned	248
Net Cash Provided/(Used) By Investing Activities	<hr/> 248
Net Increase (Decrease) in Cash and Cash Equivalents	(22,163)
Cash and Cash Equivalents - July 1, 2008 (Restated)	<hr/> 103,711
Cash and Cash Equivalents - June 30, 2009	<hr/> <hr/> \$ 81,548
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ (24,786)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<hr/> 2,375
Net Cash Provided By Operating Activities	<hr/> <hr/> \$ (22,411)

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS- MODIFIED CASH BASIS

June 30, 2009

MONTGOMERY COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS- MODIFIED CASH BASIS

June 30, 2009

	<u>Agency Fund</u>
	<u>Inmate</u>
	<u>Account</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 4,746</u>
Total Assets	<u> 4,746</u>
Liabilities	
Amounts Held In Custody For Others	<u> 4,746</u>
Total Liabilities	<u><u>\$ 4,746</u></u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances) if applicable.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Montgomery County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented or blended component units.

C. Montgomery County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Montgomery County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Montgomery County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 1. Summary of Significant Accounting Policies (Continued)

D. Property Tax Calendar

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied October 1, due at discount October 31, due at face value December 31, delinquent January 1 following assessment, and subject to lien and sale April 30 following the delinquency date.

E. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as are the proprietary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Health And Civic Center Fund - This fund is used to account for the activities of the Health And Civic Center. The primary source of revenue for this fund is office space rental. The primary expenditures of this fund are building and maintenance expenditures.

Revolving Loan Fund - This fund was established to assist local businesses, through loans to qualifying applicants, and is intended to stimulate the local economy through successful private enterprise. It is considered a Special Revenue Fund.

The government also has the following non-major funds: Local Government Economic Assistance Fund (LGEA), Juvenile Fund, and Emergency Food and Shelter Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes. The Finneran Fund is a non-major fund and is presented as a Permanent Fund. This fund is used to account for trust arrangements in which the reporting government is the beneficiary of the earnings on the principal. The Finneran Fund is presented on the statement of net assets as restricted and designated as expendable or nonexpendable.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-wide and Fund Financial Statements (Continued)

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund – This fund accounts for funds received from inmates after incarceration.

F. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings	\$ 5,000	10-75
Building Improvements	\$ 5,000	10-60
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5
Infrastructure	\$ 5,000	10-50

H. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

I. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

J. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 1. Summary of Significant Accounting Policies (Continued)

J. Budgetary Information (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

K. Jointly Governed Organizations

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Mount Sterling/Montgomery County Airport and Mount Sterling – Montgomery County 911 Board meet the criteria noted above and are disclosed as an organization jointly governed by the city of Mount Sterling and Montgomery County.

Note 2. Deposits and Investments

A. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is; (a) in writing; (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and; (c) an official record of the depository institution.

B. Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(+). As of June 30, 2009, \$75,000 of the County's bank balance of \$2,161,358 was exposed to custodial credit risk as follows:

Bank Balances Insured By FDIC At June 30, 2009	\$ 618,845
Bank Balances Collateralized at June 30, 2009*	1,467,513
Bank Balances Uninsured and Uncollateralized At June 30, 2009	<u>75,000</u>
Bank Balance At 6/30/09	<u>\$ 2,161,358</u>

*Pledged securities held by a third party bank in the county officials name.

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 3. Capital Assets

	Reporting Entity		
	Beginning Balance	Increases	Decreases
Ending Balance			
Primary Government:			
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land	\$ 584,000	\$	\$ 584,000
Construction in Progress	116,882	1,594,371	1,711,253
Total Capital Assets Not Being Depreciated	700,882	1,594,371	2,295,253
Capital Assets, Being Depreciated:			
Land Improvements		32,575	32,575
Buildings and Improvements	6,406,893	12,859	6,419,752
Vehicles	1,226,991	13,593	(13,490) 1,227,094
Equipment	778,624	112,733	891,357
Infrastructure	2,898,084	440,315	3,338,399
Total Capital Assets Being Depreciated	11,310,592	612,075	(13,490) 11,909,177
Less Accumulated Depreciation For:			
Land Improvements		(1,629)	(1,629)
Buildings	(2,932,048)	(132,568)	(3,064,616)
Vehicles	(942,374)	(85,074)	7,644 (1,019,804)
Equipment	(460,665)	(95,305)	(555,970)
Infrastructure	(343,245)	(133,537)	(476,782)
Total Accumulated Depreciation	(4,678,332)	(448,113)	7,644 (5,118,801)
Total Capital Assets, Being Depreciated, Net	6,632,260	163,962	(5,846) 6,790,376
Governmental Activities Capital Assets, Net	\$ 7,333,142	\$ 1,758,333	\$ (5,846) \$ 9,085,629
<u>Business-Type Activities:</u>			
Capital Assets, Being Depreciated:			
Vehicles	\$ 18,000	\$	\$ 18,000
Total Capital Assets Being Depreciated	18,000		18,000
Less Accumulated Depreciation For:			
Vehicles	(7,600)	(2,375)	(9,975)
Total Accumulated Depreciation	(7,600)	(2,375)	(9,975)
Total Capital Assets, Being Depreciated, Net	10,400	(2,375)	8,025
Business-Type Activities Capital Assets, Net	\$ 10,400	\$ (2,375)	\$ 0 \$ 8,025

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 98,428
Protection to Persons and Property	172,274
General Health and Sanitation	9,751
Roads, Including Depreciation of General Infrastructure Assets	<u>167,660</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 448,113</u></u>

Note 4. Notes Receivable

The county loaned \$50,000 to Cabin Hill Properties, LLC, on May 4, 2004. Terms of the agreement stipulate a seven-year repayment schedule at 5.0 percent interest. As of June 30, 2009, the principal balance due was \$15,085. Notes Receivable due for the remaining year is:

2010	\$15,085
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Note 5. Revenue Bonds

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds on November 6, 2008, for the purpose of construction and reconstruction of jail facilities. The Authority issued \$3,980,885 of revenue bonds at various interest rate, of which the county has agreed to pay \$961,340 principal and a proportional share of interest on the issue to be paid in full on October 1, 2014. Revenue bonds outstanding as of June 30, 2009, totaled \$323,769. Debt service requirements due for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 46,021	\$ 19,068
2011	48,938	16,058
2012	52,041	12,857
2013	55,340	9,453
2014	58,849	5,833
2015	<u>62,580</u>	<u>1,984</u>
Totals	<u><u>\$ 323,769</u></u>	<u><u>\$ 65,253</u></u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 6. Financing Obligations

A. Industrial Park Expansion

The county entered into a lease purchase agreement on March 25, 2002, with the Kentucky Association of Counties Leasing Trust for the purchase of land for the expansion of the industrial park. The principal amount was \$499,000. Interest payments are due monthly at an interest rate of 4.250% for five years. The principal amount of \$400,000 was due on March 20, 2007. In February 2008, the Industrial Authority refinanced the repayment of this debt totaling \$403,238 for five more years or until July 20, 2018. Debt Service payments are made by the Industrial Authority. Interest payments made by the Industrial Authority were \$11,969 during the fiscal year ended June 30, 2009. However, the county is contingently liable for this debt. As of June 30, 2009, the principal outstanding was \$303,238.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$	\$ 12,303
2011		12,296
2012		12,311
2013		12,303
2014		12,303
2015-2019	303,238	26,600
Totals	\$ 303,238	\$ 88,116

B. Sheriff's Cruiser

The county entered into a lease purchase agreement on December 17, 2007, with the Leasing One Corporation for the purchase of the Sheriff's Cruiser. The principal amount was \$64,165 and the lease stipulates a term of five years, with an interest rate of 5.93%. As of June 30, 2009, the principal outstanding was \$34,752. Debt service requirements due for remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 21,726	\$ 1,239
2011	13,026	218
Totals	\$ 34,752	\$ 1,457

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 6. Financing Obligations (Continued)

C. Civic Center/Health Department Building Renovations

The county entered into a lease purchase agreement on November 6, 2008, with the Kentucky Association of Counties Leasing Trust for the renovation of the Civic Center/Health Department Building. The principal amount was \$1,500,000. Interest payments are due monthly at an interest rate of 3.54% for twenty years, principal payments are due annually in January. As of June 30, 2009, the principal outstanding was \$1,450,000. Debt service requirements due for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 50,000	\$ 61,547
2011	50,000	60,739
2012	55,000	58,475
2013	55,000	56,074
2014	60,000	53,585
2015-2019	340,000	225,996
2020-2024	430,000	142,619
2025-2028	410,000	40,528
Totals	<u>\$ 1,450,000</u>	<u>\$ 699,563</u>

D. Jailer's Cruiser

The county entered into a lease purchase agreement on January 8, 2008, with the Leasing One Corporation for the purchase of the Jailer's cruiser. The principal amount was \$19,989. Principal and interest payments are due monthly at an interest rate of 4.95% for three years. As of June 30, 2009, the principal outstanding was \$9,777. Debt service requirements due for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 6,796	\$ 358
2011	2,981	51
Totals	<u>\$ 9,777</u>	<u>\$ 409</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 6. Financing Obligations (Continued)

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 367,046	\$	\$ 43,277	\$ 323,769	\$ 46,021
Financing Obligations	373,398	1,500,000	75,631	1,797,767	78,522
Governmental Activities Long-term Liabilities	<u>\$ 740,444</u>	<u>\$ 1,500,000</u>	<u>\$ 118,908</u>	<u>\$ 2,121,536</u>	<u>\$ 124,543</u>

Note 7. Related Party Transactions

The Montgomery County Treasurer's wife is a Vice President at Mount Sterling Bank. This bank is one of the depository institutions used by the County.

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer cost sharing defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 29.50 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 9. Insurance

For the fiscal year ended June 30, 2009, Montgomery County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Deferred Compensation

The Montgomery County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees Deferred Compensation Authority, 101 Sea Hero Road Suite #110, Frankfort, KY 40601-8862.

Note 11. Construction in Progress

Construction In Progress consisted of the following project as of June 30, 2009:

Civic Center/Health Department Building Renovations	<u>\$1,711,253</u>
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Note 12. Prior Period Adjustment

Beginning Net Assets Restated

Beginning net assets of the governmental activities have been restated by a decrease in net assets of \$271,229. The restatement is due to the erroneous capitalization and depreciation of the Route 11 road improvement project in prior years. This road is a state road and the improvement was a one-time contract between the Commonwealth of Kentucky and Montgomery County. Furthermore, there is no requirement for the county to maintain the road in the future.

Beginning net assets of the business-type activities have been restated by a decrease in net assets of \$15,685. The restatement is due to the inclusion of the inmate account with the commissary account in the prior year. In the current year the inmate account is reported as a fiduciary fund.

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended 2009

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

GENERAL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 4,375,200	\$ 4,375,200	\$ 4,480,058	\$ 104,858
Excess Fees	32,200	132,200	135,318	3,118
Licenses and Permits	83,100	83,100	91,972	8,872
Intergovernmental Revenue	401,800	478,300	355,750	(122,550)
Miscellaneous	106,000	106,000	134,417	28,417
Interest	50,000	50,000	48,999	(1,001)
Total Revenues	5,048,300	5,224,800	5,246,514	21,714
EXPENDITURES				
General Government	1,757,898	1,940,250	1,751,323	188,927
Protection to Persons and Property	410,111	405,910	389,124	16,786
General Health and Sanitation	306,639	312,639	204,762	107,877
Social Services	94,000	99,000	88,384	10,616
Recreation and Culture	88,000	88,000	65,784	22,216
Airport Contributions	25,000	25,000	22,917	2,083
Administration	1,959,911	1,907,479	1,672,199	235,280
Total Expenditures	4,641,559	4,778,278	4,194,493	583,785
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	406,741	446,522	1,052,021	605,499
TRANSFERS & OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds	(1,424,408)	(1,424,408)	(1,193,334)	231,074
Total Other Transfers & Financing Sources (Uses)	(1,424,408)	(1,424,408)	(1,193,334)	231,074
Net Changes in Fund Balance	(1,017,667)	(977,886)	(141,313)	836,573
Fund Balance - Beginning	1,017,667	1,017,667	1,296,841	279,174
Fund Balance - Ending	\$ 0	\$ 39,781	\$ 1,155,528	\$ 1,115,747

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 4,015,920	\$ 4,015,920	\$ 973,721	\$ (3,042,199)
Miscellaneous	2,000	2,000	15,521	13,521
Interest	1,000	1,000		(1,000)
Total Revenues	4,018,920	4,018,920	989,242	(3,029,678)
EXPENDITURES				
Transportation Facilities and Services	30,000	30,000	30,735	(735)
Roads	4,481,840	4,481,840	1,125,171	3,356,669
Administration	272,700	272,700	233,876	38,824
Total Expenditures	4,784,540	4,784,540	1,389,782	3,394,758
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)				
	(765,620)	(765,620)	(400,540)	365,080
TRANSFERS & OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	765,620	765,620	406,103	(359,517)
Total Other Transfers & Financing Sources (Uses)	765,620	765,620	406,103	(359,517)
Net Changes in Fund Balance				
Fund Balance - Beginning			5,563	5,563
			17,711	17,711
Fund Balance - Ending	\$ 0	\$ 0	\$ 23,274	\$ 23,274

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,348,000	\$ 1,348,000	\$ 1,143,460	\$ (204,540)
Charges for Services	103,500	103,500	165,111	61,611
Miscellaneous	32,500	32,500	29,888	(2,612)
Interest	500	500	600	100
Total Revenues	1,484,500	1,484,500	1,339,059	(145,441)
EXPENDITURES				
Protection to Persons and Property	1,518,012	1,535,086	1,512,954	22,132
Debt Service	72,326	77,476	72,330	5,146
Administration	499,950	477,726	398,597	79,129
Total Expenditures	2,090,288	2,090,288	1,983,881	106,407
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)				
	(605,788)	(605,788)	(644,822)	(39,034)
TRANSFERS & OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	605,788	605,788	652,000	46,212
Total Transfers & Other Financing Sources (Uses)	605,788	605,788	652,000	46,212
Net Changes in Fund Balance				
			7,178	7,178
Fund Balance - Beginning			18,077	18,077
Fund Balance - Ending	\$ 0	\$ 0	\$ 25,255	\$ 25,255

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

HEALTH AND CIVIC CENTER FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 770,000	\$ 770,000	\$ 770,735	\$ 735
Charges For Services	13,500	13,500	18,999	5,499
Miscellaneous	107,000	107,000	112,325	5,325
Interest	3,000	3,000	3,270	270
Total Revenues	893,500	893,500	905,329	11,829
EXPENDITURES				
General Health and Sanitation	2,216,500	2,212,343	1,696,713	515,630
Debt Service	52,435	90,948	90,948	0
Admin	195,575	161,219	25,133	136,086
Total Expenditures	2,464,510	2,464,510	1,812,794	651,716
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	(1,571,010)	(1,571,010)	(907,465)	663,545
TRANSFERS & OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds			158,231	158,231
Transfers to Other Funds			(85,000)	(85,000)
Lease Proceeds	1,375,000	1,375,000	1,500,000	125,000
Total Transfers & Other Financing Sources (Uses)	1,375,000	1,375,000	1,573,231	198,231
Net Changes in Fund Balance	(196,010)	(196,010)	665,766	861,776
Fund Balance - Beginning	196,010	196,010	207,028	11,018
Fund Balance - Ending	\$ 0	\$ 0	\$ 872,794	\$ 872,794

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

REVOLVING LOAN FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous Revenue	\$ 8,480	\$ 8,480	\$ 8,480	\$
Interest	4,600	4,600	4,781	181
Total Revenues	13,080	13,080	13,261	181
EXPENDITURES				
Administration	314,480	314,480	0	314,480
Total Expenditures	314,480	314,480	0	314,480
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)				
	(301,400)	(301,400)	13,261	314,661
Net Changes in Fund Balance	(301,400)	(301,400)	13,261	314,661
Fund Balance - Beginning	301,400	301,400	301,269	(131)
Fund Balance - Ending	\$ 0	\$ 0	\$ 314,530	\$ 314,530

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation to the Statement of Revenues, Expenditures, and Changes in Fund Balance

General Fund

Total Revenues - Budgetary Basis	\$ 5,246,514
Add: Miscellaneous Revenues - Sheriff Vehicles	19,145
Total Revenues - Modified Cash Basis	<u>\$ 5,265,659</u>
 Total Expenditures - Budgetary Basis	 \$ 4,194,493
Add: Debt Service - Sheriff Vehicles	19,145
Total Expenditures - Modified Cash Basis	<u>\$ 4,213,638</u>

The accompanying notes are an integral part of the financial statements.

COMBINING BALANCE SHEET – NON-MAJOR
GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

June 30, 2009

COMBINING BALANCE SHEET - NON-MAJOR
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

ASSETS				
Cash and Cash Equivalents				
Total Assets				
LGEA	Juvenile	Emergency	Food And	Total
Fund	Fund	Shelter Fund	Shelter Fund	Non-Major
Fund	Fund	Fund	Fund	Governmental
Funds				
\$ 78	\$ 1,218	\$ 0	\$ 78,844	\$ 80,140
\$ 78	\$ 1,218	\$ 0	\$ 78,844	\$ 80,140
FUND BALANCES				
Reserved for:				
Permanent Fund - Senior Care				
\$	\$	\$	\$	\$
75,000				
Unreserved:				
Permanent Revenue Funds				
Special Revenue Funds				
Permanent Fund				
1,296	1,218		3,844	3,844
Total Fund Balances				
\$ 78	\$ 1,218	\$ 0	\$ 78,844	\$ 80,140

The accompanying notes are an integral part of the financial statements.

COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES –
NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

For The Year Ended June 30, 2009

COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES –
NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	LGEA Fund	Juvenile Fund	Emergency Food And Shelter Fund	Finneran Fund	Total Non-Major Governmental Funds
REVENUES					
Intergovernmental	\$ 78,742	\$	\$ 11,692	\$	\$ 90,434
Miscellaneous				7,000	7,000
Interest				3,324	3,324
Total Revenues	78,742	0	11,692	10,324	100,758
EXPENDITURES					
Protection to Persons and Property	4,898	60,782			65,680
General Health and Sanitation	622				622
Social Services	2,000		11,692		13,692
Roads	102,262				102,262
Capital Projects				7,900	7,900
Total Expenditures	109,782	60,782	11,692	7,900	190,156
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources/(Uses)	(31,040)	(60,782)		2,424	(89,398)
TRANSFERS AND OTHER FINANCING SOURCES/(USES)					
Transfers From Other Funds		62,000			62,000
Total Transfers & Other Financing Sources/(Uses)		62,000			62,000
Net Change in Fund Balances	(31,040)	1,218		2,424	(27,398)
Fund Balances - Beginning	31,118			76,420	107,538
Fund Balances - Ending	\$ 78	\$ 1,218	\$ 0	\$ 78,844	\$ 80,140

The accompanying notes are an integral part of the financial statements.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Floyd Arnold, Montgomery County Judge/Executive
Members of the Montgomery County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise Montgomery County's basic financial statements and have issued our report thereon dated October 15, 2009. Montgomery County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montgomery County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montgomery County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Montgomery County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Montgomery County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of Montgomery County's financial statements that is more than inconsequential will not be prevented or detected by the Montgomery County's internal control. We consider the following deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting: 2009-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Montgomery County's internal control.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Montgomery County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying comments and recommendations as items 2009-2, 2009-3, and 2009-4.

Montgomery County's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit Montgomery County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

October 15, 2009

COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2009

COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2009

MATERIAL WEAKNESS:

2009-1 Condition: The Montgomery County Fiscal Court Did Not Approve The Opening And Closing Of Certificates Of Deposits

Criteria: The fiscal court should approve the opening and closing of all bank accounts including certificates of deposits.

Effect: The fiscal court members may not be aware of all certificates of deposits.

Cause: The fiscal court did not have a policy in place to assure approval of the opening and closing of all certificates of deposits.

Recommendation: We recommend that the fiscal court approve the opening and closing of certificates of deposits in the future.

County Treasurer Forrest Brown's Response: The Fiscal Court, by implication, desires all Certificates of Deposit to be renewed as they mature. The Fiscal Court is made aware if cash balances reach levels that may require that a maturing Certificate of Deposit not be renewed, but added to the checking account to provide a safe level of cash on hand to cover ordinary expenses. It would appear redundant to have the Fiscal Court approve each and every Certificate of Deposit as it matures. Could you please refer us to the specific KRS that addresses this situation.

Auditor's Response: This is not a compliance issue, this is an internal control issue. If the fiscal court does not have knowledge as to where all Certificate of Deposits are held, Certificate of Deposits could be misappropriated.

NONCOMPLIANCES:

2009-2 Condition: The Chief Deputy Jailer Should Keep A Timesheet

Criteria: Timesheets should be kept for payroll verification and as a record of leave time used. Per KRS 337.320(1) Every employer shall keep a record of (a) the amount paid each pay period to each employee (b) the hours worked each day and each week by each employee and (c) such other information as the executive director requires.

Effect: Noncompliance with KRS 337.320(1).

Cause: The Chief Deputy Jailer is not keeping a timesheet. There appears to be no monitoring of the Deputy Jailer's timesheet preparation.

Recommendation: We recommend that Chief Deputy Jailer start keeping a timesheet immediately and have the Jailer approve it before payment is issued.

County Jailer Dewayne Myers' Response: As of this review with auditors my chief deputy will start clocking in or kept a time sheet.

COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2009

2009-3 Condition: Section IIIA: Nepotism Of The Montgomery County Code Of Ethics Appears To Have Been Violated

Criteria: Pursuant to the county's Ethics Code Section IIIA "No elected official or department head of Montgomery County shall advocate, recommend, or cause the employment of a family member to an office or position of employment with the elected official's department. Effective date of ordinance was April 22, 2003.

Effect: Apparent violation of the Montgomery County Code of Ethics.

Cause: The Montgomery County Jailer hired his mother, which appears to be a direct violation of the County's Ethics Code. The Ethics Committee appears to lack adequate monitoring of such situations.

Recommendation: We recommend that this matter be brought before the Montgomery County Ethics Committee so they can review this situation.

County Jailer Dewayne Myers' Response: This actually was discussed with Fiscal Court and County Attorney when she was hired back 23hr at week.

Auditors' Response: We noted no evidence in the minutes of the fiscal court meetings regarding any discussion of this matter. We further found no evidence of an official opinion issued by the county attorney regarding this matter. We repeat our recommendation that this matter be addressed by the Montgomery County Ethics Committee.

2009-4 Condition: The Montgomery County Fiscal Court Maintained Deposits Of Public Funds In A Depository Institution, Which Did Not Provide Sufficient Collateral Or A Written Security Agreement

Criteria: Per KRS According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Effect: \$75,000 of public funds were unsecured and uncollateralized at June 30, 2009.

Cause: The fiscal court did not assure that a written security agreement was obtained with every depository institution.

Recommendation: We recommend that the fiscal court maintain deposits of public funds in a depository institution that provides sufficient collateral and a written security agreement.

County Treasurer Forrest Brown's Response: The Montgomery County Fiscal Court will immediately begin the process of obtaining new collateral security agreements from each bank in Mount Sterling. If any bank refuses to sign this agreement, they will be excluded from participating in any future bids for Certificates of Deposit.

However, it is my understanding that even without these agreements, banks are obligated to maintain collateral equal to the amount of Public Money they have on deposit.


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS

Fiscal Year Ended June 30, 2009

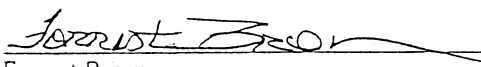
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS
MONTGOMERY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2009

The Montgomery County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Programs was expended for the purposes intended as dictated by the applicable Kentucky Revised Statutes.



Floyd Arnold
County Judge/Executive



Forrest Brown
County Treasurer